

Message Text

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TO SECSTATE WASHDC 2930
INFO AMCONSUL ADANA
AMEMBASSY BONN
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AMCONSUL ISTANBUL
AMCONSUL IZMIR
AMEMBASSY KUWAIT
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA

C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 5777

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E.O. 11652 GDS
TAGS: EFIN, TU
SUBJ: TURKISH VIEWS ON CURRENT FINANCIAL SITUATION

REF: (A) ANKARA 5714 (NOTAL, (B) STATE 201837 (NOTAL)

SUMMARY: EMBOFFS MET WITH AYSEL OYMEN, TREASURY,
DIRECTOR GENERAL FOR FOREIGN FINANCING, ON AUGUST
8 FOR A WIDE-RANGING DISCUSSION OF TURKEY'S FINANCIAL
SITUATION. OYMEN WAS GENERALLY DISHEARTENED ABOUT TURKEY'S
SHORT-RUN PROSPECTS. SHE CANDIDLY ADMITTED THAT ECEVIT
GOVERNMENT HAD MADE A NUMBER OF MISTAKES IN IMPLEMENTING ITS
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STABILIZATION PROGRAM AND THUS FAR HAD BEEN UNABLE TO COORDI-
NATE CONFLICTING VIEWPOINTS OF KEY MINISTERS INTO A COHERENT
ECONOMIC POLICY; HOWEVER, SHE PLACED MOST OF THE BLAME
FOR TURKEY'S FINANCIAL PROBLEMS ON THE DOCTRINAIRE
ATTITUDES AND LACK OF TIMELY SUPPORT FROM IMF AND
COMMERCIAL BANKS. SIGNIFICANT POINTS COVERED ARE
OUTLINED BELOW. END SUMMARY.

1. THE STABILIZATION PROGRAM: OYMEN SAID THAT TURKEY HAD TRIED TO CONVINCE COMMERCIAL BANKS OF THE IMPORTANCE OF TIMELY PROVISION OF NEW MONEY TO THE CSUCCESS OF THE STABILIZATION PROGRAM; HOWEVER, THE NEW MONEY IS NOW TOO LATE, AND THIS HAS HAD A DAMAGING EFFECT ON PRODUCTION DUE TO SHORTAGES OF IMPORTED MATERIALS. EXPORTS HAVE BEEN DELAYED DUE TO THE INABILITY TO TRANSFER FUNDS TO GET PACKAGING MATERIALS FOR CEMENT, RAISINS, AND OTHER PRODUCTS. OYMEN CRITICIZED THE IMF'S INTRANSIGENCE ON DEVALUATION (SEE REF A) BY ASSERTING THAT TURKISH EXPORTS ARE NOT VERY SENSITIVE TO CHANGES IN EXCHANGE RATES. SHE CITED A NUMBER OF STRUCTURAL PROBLEMS SUCH AS THE LACK OF MARKET RESEARCH, INADEQUATE QUALITY CONTROLS, AND EXPORT EXPERIENCE AS MORE RELEVANT IMPEDIMENTS TO TURKISH EXPORTS THAN THE EXCHANGE RATE. EVEN THE PORT FACILITIES ARE DESIGNED FOR IMPORTS AND NOT EXPORTS. SHE SAID THAT UNFORTUNATELY THE IMF HAD NO POLITICAL SENSE IN THESE MATTERS AND HAD INFLUENCED THE BANKING COMMUNITY WHICH HAS MADE TURKISH CONFORMITY WITH IMF POLICY A PREREQUISITE FOR BOTH DEBT RESCHEDULING AND NEW MONEY.

2. RESCHEDULING ON NON-GUARANTEED COMMERCIAL ARREARS: CITIBANK'S "CONSTRUCTIVE REMITTANCE" SCHEME, WHEREBY THE BANK REFINANCES TURKISH COMMERCIAL ARREARS DUE TO CONFIDENTIAL

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SUPPLIERS WITH THE GUARANTEE OF BOTH THE GOVERNMENT OF TURKEY AND THE SUPPLIER, HAS BEEN STYMIED BY A DISAGREEMENT OVER THE INTEREST RATE. TURKEY BELIEVES THE PROPOSED INTEREST RATE (1.5 PERCENT OVER THE LONDON INTERBANK OFFERED RATE) IS TOO HIGH FOR A LOAN WITH TWO GUARANTEES. TURKEY WOULD ACCEPT THE INTEREST RATE IF A PORTION OF THE LOAN PROVIDED FUNDS TO FINANCE NEW IMPORTS. NEITHER THE CITIBANK \$150 MILLION SCHEME NOR A SIMILAR \$200 MILLION PROPOSAL FROM DEUTSCHE BANK CONTAINS NEW MONEY AND ARE THEREFORE UNACCEPTABLE AS CURRENTLY STRUCTURED. A BANK OF TOKYO \$40 MILLION LOAN DOES CONTAIN AN ELEMENT OF FRESH MONEY AND IS BEING ACTIVELY CONSIDERED.

3. RESCHEDULING OF CONVERTIBLE LIRA DEPOSITS (CTL) AND BANK DEBTS: OYMEN SAID THAT REPRESENTATIVES OF THE EIGHT LEAD BANKS WOULD PRESENT FINAL POSITIONS TO THE GOT ON AUGUST 11 ON THE RESCHEDULING OPERATION. SHE REVEALED THAT ONLY SEVEN OF THE EIGHT LEAD BANKS HAD AGREED TO PARTICIPATE IN THE "BEST EFFORTS" EUROCURRENTY SYNDICATION TO PROVIDE NEW MONEY FOR TURKEY (BARCLAY'S BANK OF ENGLAND IS PROBABLY THE DROPOUT). SHE SAID EACH OF THE SEVEN BANKS HAD AGREED TO PROVIDE UP TO \$25 MILLION,

BUT SHE WOULD NOT COMMENT ON A PROBABLE DISBURSEMENT SCHEDULE. OYMEN COMMENTED THAT THE BANKS HAD MADE A MISTAKE IN LENDING TO TURKEY UNDER THE CTL SYSTEM, BUT THEY HAD PROFITED FROM IT. THE BANKS WOULD PROFIT AGAIN FROM THE RESCHEDULING.

4. STATUS OF OECD DEBT RESCHEDULING: OYMEN NOTED THAT TURKEY HAD ALREADY SIGNED RESCHEDULING AGREEMENTS WITH NORWAY, AUSTRALIA, AND BELGIUM AND WOULD SOON BE SIGNING AGREEMENTS WITH SWEDEN, SWITZERLAND, AND AUSTRIA. THE AUSTRIAN AGREEMENT COVERS SCHILLINGS 1,150 MILLION (ABOUT \$75 MILLION) AND GOES BEYOND THE OECD AGREED MINUTE IN THAT IT CONSOLIDATES SHORT-TERM DEBTS FALLING DUE THROUGH THE END OF 1978. THE AGREEMENT, WHICH IS CONFIDENTIAL

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SCHEDULED FOR AN AUGUST 11 SIGNING, CONSOLIDATES ABOUT SCHILLINGS 500 MILLION IN PROJECT CREDITS, SCHILLINGS 250 MILLION IN PROGRAM CREDITS, SCHILLINGS

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250 MILLION IN SHORT-TERM DEBT AND PROVIDES SCHILLINGS
150 MILLION IN PROJECT CREDIT DOWN PAYMENTS. OYMEN
REPORTS THAT JAPAN HAS DECIDED TO PARTICIPATE IN
RESCHEDULING EXERCISE BUT WILL NOT TAKE PART IN THE OECD
CONSORTIUM FOR ASSISTANCE TO TURKEY. JAPAN HAS FORZEN
ITS EXPORT CREDIT GUARANTEES TO TURKEY AND WANTS A
TURKISH DELEGATION TO COME TO TOKYO TO EXPLAIN TURKEY'S
STABILIZATION PROGRAM AND PROVIDE DETAILED ECONOMIC DATA
BEFORE IT WILL CONSIDER REOPENING THESE LINES.

(COMMENT: ONE OF THE KEY PROJECTS HELD UP BY THE
CREDIT FREEZE IS A TURKISH STATE MOTOR INDUSTRY
(TUMOSAN) PLANT TO PRODUCE 40,000 LIGHT TRUCK
ENGINES ANNUALLY UNDER MITSUBISHI LICENSE. THE FOREIGN
EXCHANGE COST OF THE PROJECT IS ABOUT \$50 MILLION.)

5. ECONOMIC POLICY CONFLICT WITHIN THE GOVERNMENT:
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OYMEN EXPLAINED THAT A DISTINCT CHANGE HAS BEEN MADE IN
TURKISH POLICY TO FAVOR PROMOTION OF EXPORTS; BUT SHE
SAID THAT HER 25-YEARS EXPERIENCE WITH TURKEY'S BUREAUCRACY
HAS TAUGHT HER THAT POLICY CHANGES ARE NOT IMPLEMENTED
UNLESS KEY PEOPLE IN THE BUREAUCRACY ARE ALSO CHANGED.
SHE SAID THAT THE GOVERNMENT HAS BEEN SLOW TO MAKE THESE
PERSONNEL CHANGES, ESPECIALLY IN THE STATE PLANNING OFFICE
AND MINISTRY OF COMMERCE. THIS HAS HAMPERED IMPROVE-
MENT IN ECONOMIC POLICY DECISIONS. IN RESPONSE TO
EMBOFFS' QUESTION ABOUT THE APPARENT CONFLICTING
ATTITUDES TOWARD FOREIGN INVESTMENT WITHIN THE GOVERNMENT,
OYMEN SAID THAT THE PROBLEM RESULTED FROM PERSONAL
FRICTION WITHIN THE CABINET REGARDING THE APPROPRIATE
POLICIES TO PURSUE.

6. PETROLEUM PRICING POLICY: OYMEN ADMITTED THAT TURKEY
HAD MADE A MISTAKE BY NOT RAISING PETROLEUM PRODUCT PRICES
AT THE TIME OF THE MARCH 1 DEVALUATION. SHE COMMENTED
THAT SUCH PRICE ADJUSTMENTS ARE DIFFICULT TO MAKE IN
DEMOCRATIC COUNTRIES; HOWEVER, THE GOVERNMENT HAS TOLD
THE IMF THAT IT WOULD RAISE PETROLEUM PRODUCT PRICES,
BUT THAT IT PLANNED TO DO SO AFTER THE HARVEST SEASON
(THIS PROBABLY MEANS LATE SEPTEMBER OR OCTOBER).

7. FINANCIAL CONSULTANTS: OYMEN CONFIRMED THAT THE
CENTRAL BANK HAD HIRED KUHN-LOEB, WARBURG, AND
LAZARD FRERES FOR SIX MONTHS TO ADVISE ON POLICY MEASURES
TO HELP TURKEY OVERCOME ITS INDEBTEDNESS PROBLEM. SHE
CHARACTERIZED THE HIRING OF THE MERCHANT BANK CONSORTIUM
AS A "LAST RESORT" EFFORT BY THE GOVERNMENT TO FIND OUT

HOW TO COPE WITH ITS ECONOMIC SITUATION; GOVERNMENT,
SHE EXPLAINED, HAD ENGAGED THESE CONSULTANTS TO
AVOID BEING CHARGED WITH FAILURE TO OBTAIN BEST AVAIL-
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ABLE ADVICE. SHE REVEALED THAT IT WAS KUHN-LOEB WHO
HAD ADVISED THAT THE INTEREST RATE WAS TOO HIGH ON THE
CITIBANK CONSTRUCTIVE REMITTANCE SCHEME. THE
CONSULTANTS WERE TO HAVE PRESENTED THEIR FINDINGS
TO THE TURKS ON AUGUST 9.

8. GIVEN THE BLEAK ECONOMIC PICTURE JUST OUTLINED,
EMBOFF ASKED WHY GOVERNMENT MINISTERS CONTINUE TO
MAKE OPTIMISTIC PUBLIC STATEMENTS ABOUT ECONOMIC
CONDITIONS. RESPONSE WAS THAT THE MINISTER OF
COMMERCE WAS PROUD THAT EXPORT EARNINGS HAD PICKED UP
IN JUNE AND JULY (EXPORTS THROUGH JULY TOTALED
\$1,107 MILLION AND WERE 12 PERCENT ABOVE THE SAME PERIOD
IN 1977 ALTHOUGH THE ANNUAL RATE IS STILL BELOW THE
\$2 BILLION MARK) AND STILL HOPED THE EXPORT TARGET COULD
BE MET (THE TARGET HAS BEEN LOWERED FROM \$2.5 BILLION TO
\$2.2 BILLION). THE MINISTER OF FINANCE WAS ENCOURAGED
THAT THE MONTHLY RATE OF INFLATION WAS FALLING, THAT
AGRICULTURAL SUPPORT PRICES WERE LOWER IN REAL TERMS, AND
THAT THE MONEY SUPPLY WAS BEING HELD IN CHECK. THESE
FEELINGS PROMPTED THEIR OPTIMISTIC STATEMENTS. (COMMENT:
THE WHOLESALE PRICE INDEX DID DECLINE FROM A 3.2
PERCENT INCREASE IN MAY TO A 1.8 PERCENT INCREASE IN JUNE
DESPITE THE FACT THAT INFLATION RATE FOR 12 MONTHS ENDING
JUNE 30 WAS 51.6 PERCENT), AND THE MONEY SUPPLY DROPPED BY 2.9
PERCENT IN MAY. THE MINISTERS APPARENTLY HAVE TRUMPETED THESE
ON MONTH IMPROVEMENTS IN THE HOPE THAT THEY MAY INDICATE
TRENDS. HOWEVER, RECENT PRESS EDITORIAL QUESTIONED GOV-
ERNMENT'S TENDENCY TO "GIVE DEFEATS THE AIR OF
VICTORIES.") DILLON

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